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DEPARTMENT OF STATE

Washington, D.C. 20520

November 16, 1973

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MEMORANDUM FOR MAJOR GENERAL SCOWCROFT
THE WHITE HOUSE

Subject: Inter-Agency Study on "International Cooperation in Agriculture"

I transmit herewith the study on International Cooperation in Agriculture which was requested in NSSM 187. The study was prepared by an inter-agency group comprised of representatives of the Departments of State, Treasury and Agriculture, the Central Intelligence Agency, the Office of Management and Budget, the Council of Economic Advisers, the Special Representative for Trade Negotiations and the Assistant to the President for International Economic Policy. The Department of Agriculture has appended separate comments beginning on p. 49.

Julius L. Katz
Deputy Assistant Secretary
for International Resources
and Food Policy

Chairman of Inter-agency
Group on NSSM 187

Attachment:

Study on "International
Cooperation in Agriculture"

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SUMMARY

INTERNATIONAL COOPERATION IN AGRICULTURE

In this study we have attempted to outline:

-- The general outlook for the food problem in the years to come;

-- the principal issues with which we are likely to be confronted;

-- the major objectives of the United States and other countries;

-- various possible approaches, with an assessment of their negotiability and of their compatibility with US foreign and domestic policy objectives.

Outlook

Barring some new catastrophe, the next twelve months should see adequate food supplies in the world to meet current commercial requirements, but not to rebuild depleted stocks. Therefore in the coming year there will be a considerable strain on food aid supplies for needy countries. They will be faced with reduced consumption because of high prices and because food aid from abroad (mostly from the United States) that has provided a margin above mere subsistence has been drastically curtailed.

In subsequent years we foresee increasing output, in the United States as a result of idle acreage being returned to production, and abroad as a result of the stimulus provided by current high prices. While we cannot predict the long term supply/demand balance, it is not improbable that we will again be faced, at least temporarily, with food surpluses and excess production capacity; nevertheless, we must also be prepared for occasional shortages.

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Principal Issues

The uncertainties of the future evolution of the world food problem raise four major issues:

-- How can we meet the concerns of food-importing countries for assurances of food supplies at reasonably stable prices so as to avoid stimulating uneconomic production?

-- How can we ensure that essential food aid needs are met in future emergencies?

-- How can we ensure full use of our comparative advantage in the production of basic foodstuffs to help sustain the recent improvement in our balance of payments?

-- How can we best resolve these issues in a way compatible with

(1) our broad foreign policy objectives: close cooperation with our major allies, development of the LDCs, and improved relations with Communist Countries;

(2) our foreign economic policy objectives of reform of the international trade and monetary system;

(3) the general thrust of our domestic agricultural policy toward less government interference and greater reliance on the marketplace?

Interests of the United States and Other Countries

Different countries look at the problem from different viewpoints. The United States and other agricultural exporting countries (including many developing countries) emphasize a more efficient use of the world's agricultural resources; their main interest is in improving their access to the highly protected commercial markets, notably the European Community and Japan. The importing countries wish to limit their dependence on imports and justify that position in part because of their concern about stability of their agricultural sector and in part because of the desire for greater security of supplies. Countries dependent

on food aid are interested in an uninterrupted flow of such aid. The United States, which has borne the main responsibility for stocks and food aid, is interested in sharing the burden with other developed countries and in reducing the need for food aid by promoting sound agricultural development in recipient countries. Most countries subscribe to the principle of providing an acceptable minimum income for farmers, but use different techniques, some of which have serious adverse effects on international trade.

A realistic approach to better international co-operation in agriculture must take these various interests into account. A package containing all four major elements -- market access, supply assurances, food aid and farm income maintenance -- should be more negotiable than any single element.

Possible Approaches

The individual elements of such a package can take different forms which need to be assessed in terms of their effectiveness, negotiability, and compatibility with U.S. foreign and domestic policy objectives.

Market Access

The U.S. continues to have a vital interest in maintaining and improving access to its major markets of Western Europe and Japan. Increased trade would help to maintain American farm incomes and to limit the costs of our farm programs. It would also improve the balance of payments and contribute to the growth of the GNP. Expansion of U.S. agricultural exports is necessary to maintain the traditional support of the American farmer for a liberal trade policy.

For a good many years the United States has kept some 60 million acres of farm land idle because of the existence of foreign trade barriers. In the wake of the recent upsurge of import demand, 25 million acres were brought back into production in the crop year 1972/73; another 10 million acres or more are expected to be added in the current crop year. All

acreage restrictions have now been lifted and it is hoped that we can avoid reimposing such restrictions. However, we must reckon with the possibility that prices will fall to the point where we may again have to restrict acreage if support costs become too burdensome and the Commodity Credit Corporation accumulates excessive stocks.

The prospects for international arrangements providing for a gradual reduction of agricultural protection in developed countries are more favorable than might appear from official pronouncements. The Common Agricultural Policy has come under widespread criticism in Europe because of its cost to consumers and taxpayers. At the same time, European agriculture is becoming more efficient and therefore better able to meet international competition. Consumer concern about inflation is growing in Japan and elsewhere. The concern over the current tight supply situation may also contribute to a willingness to enter into serious negotiations.

This study outlines several different approaches to improve market access. United States policy makers may continue to prefer the application of the traditional techniques of trade liberalization to agriculture. But they should also be aware that alternative approaches which may be compatible with the temporary retention of existing techniques of support and protection such as quotas and variable levies may turn out to be more negotiable. It might also be useful to consider other approaches such as agreement on self-sufficiency ratios. The use of rubrics which are, at least, partly presentational in their design such as the concept of "commodity arrangements" which has wide appeal abroad may also help. (Unlike traditional commodity agreements, such commodity arrangements need not contain price provisions.)

Farm Income Maintenance

As part of whatever approach is followed to obtain improved market access, an international agreement could spell out the measures unlikely to interfere significantly with the functioning of the world market such as adjustment assistance, income deficiency payments, payments for retirement of farmers and farm land, subsidies to mountain farmers, etc.

Security of Supplies

The relative stability of world agricultural markets in the postwar period has been due primarily to the existence of adequate government-held stocks in the United States and in Canada. These stocks have for the time being been depleted.

Present U.S. policy is to encourage all-out production and rebuilding of stocks entirely by the private sector: The private trade and farmers who are encouraged to keep commodities in storage with the help of CCC loan programs and storage payments.

Can such privately held stocks be counted upon to provide an adequate cushion against major surges in import demand such as occurred in 1966 and 67 and again this past year? This appears doubtful. The private trade can hardly be expected to incur the heavy carrying charges (interest and storage) for the stocks required to meet a contingency which occurs only once in six years or so. Farmers could, of course, hold the stocks themselves under Government credit and financing programs, but they may want to dispose of their stocks when they feel the price is right and will not necessarily hold them for major shortage situations.

Some argue that the matter could be left to other exporting and importing countries. We could encourage these countries to build up their own stocks against a recurrence of major shortages. However, this approach would risk reinforcing existing autarchic tendencies in Europe and cause Japan to intensify its search for alternative sources of supply. It would therefore probably be to the advantage of the United States to participate in an international arrangement to build up and maintain adequate stocks, particularly of wheat.

An international food stockpile agreement could take several different forms. It could be designed to cover food aid needs only. This, however, would not meet the concerns regarding security of commercial supplies of our major trading partners.

Another issue concerns the degree of international control of world food stocks. It is generally agreed that it is neither necessary nor practical to build up a centrally managed "world food bank". The present thinking in the United States and elsewhere leans toward national stockpiles which would be subject to international rules and procedures concerning the size of stocks to be held by individual participants, and the timing of their replenishment and release. Stock levels and/or prices could be used to trigger action or as presumptive criteria which would be taken into account in international consultations. An agreement of this kind could help to provide (1) security of supplies at reasonably stable prices and (2) an equitable sharing of the financial burden among both food exporting and importing developed countries.

Complementing a world food security scheme, the United States could propose to negotiate a code of conduct containing rules and procedures concerning the imposition, administration, and phasing-out of temporary export restrictions as well as import restrictions. This would serve the dual purpose of greater security of supplies and greater security of access to markets.

For maximum effectiveness, any such arrangement should be part of our strategy in the multilateral trade negotiations and should be linked with US objectives concerning improved market access and the phasing-out of subsidies.

Food Aid

Now that food surpluses are no longer assured, production for food aid must be deliberately planned. What priority should be attached to food aid as distinct from other forms of aid?

From the United States point of view, there are several advantages in supplying aid in the form of food so long as the United States has efficient agricultural production capacity which would otherwise be idle because of foreign trade barriers. This is not true to the same extent when we supply aid in the form of industrial products. Furthermore, there are budgetary advantages

whenever market prices are below target prices, in that the Government saves on deficiency payments to the extent that PL 480 purchases help to raise the market prices. Finally, it is generally easier to obtain Congressional support for food aid than for other aid programs.

So far as food aid receiving countries are concerned, it has been argued that supply aid in the form of food may discourage domestic agricultural production. Aid according to this view should mostly take the form of technical assistance in support of agricultural development. Others point out that agricultural development is a slow process and that food aid will be needed for some time to come, not only to meet short-term emergency situations but also to mitigate widespread chronic malnutrition which is a major depressant of human productivity in many developing countries. Food aid policy should be re-examined, however, to see whether there are possible adverse effects (discouragement of agricultural production in developing countries and displacement of commercial trade) and if so, whether these can be minimized by ensuring, so far as possible, that food supplied on concessional terms leads to additional consumption.

Assuming food aid programs will continue, how can we assure that food is available when it is needed? An international stockpiling scheme as outlined above would go a long way to ensure that in times of shortage, those with the least ability to pay will not be the first to suffer. Additional security could be provided for food aid receiving countries by:

-- providing food aid for stock building;

-- providing additional financing of storage costs;

-- or alternatively by building up separate food aid stocks in donor countries.

Here again, it would seem to be in the United States interest to operate its bilateral programs in the broad framework of an international arrangement that would share the burden among both food exporting and food importing developed countries. International guidelines could be developed which would establish the principles and operating procedures for food aid under bilateral and existing (and

if possible expanded) multilateral programs. A list of recipient countries could be established, some of which would be eligible for food aid all of the time, and others eligible depending on the degree of tightness in world markets. In the United States, improved coordinating machinery may be needed to ensure effective allocation of food aid in accordance with U.S. international commitments and specific U.S. political, economic and humanitarian objectives in particular receiving countries.

Institutional Framework

The FAO is holding its biennial conference in November 1973. International agricultural adjustment and the Director General's proposal for a stockpile agreement are on the agenda. The U.S. could use this forum to outline the world food problem as we see it and to give some general indications of what we think needs to be done. We could also use the OECD as a forum for consultations with other major trading nations.

In the World Food Conference which the USS. has proposed for 1974, the U.S. could spell out its thinking in greater detail. The Conference could serve to establish a broad policy framework for dealing with the world's agricultural and food problems.

The multilateral trade negotiations are likely to be the most promising forum for actual negotiations to tie all these elements together. It is only in GATT that we can bring the weight of non-agricultural negotiations to bear on agricultural trade problems.

Where appropriate, issues of concern to the UNCTAD and the FAO could be brought to these organizations for discussion and formal approval.

Further Study

There is a need for further review of U.S. policy in all of the areas covered in this study. Work is already in progress on the formulation of the USS. position for the multilateral trade negotiations. We recommend that further studies be undertaken to examine

in greater detail what alternatives are available to the U.S. in the fields of stockpiling and food aid, and the advantages and disadvantages of each. We need to examine possible incompatibilities between our domestic agricultural objectives and foreign policy objectives to see what changes need to be made. We should try to ensure, so far as possible, that our food policies are compatible with our broad foreign policy objectives and that they reinforce and do not conflict with each other.